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BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

Arizona Corporation Commission

**DOCKETED**

2011 JUL 22 P 3:15

GARY PIERCE - CHAIRMAN

BOB STUMP

SANDRA D. KENNEDY

PAUL NEWMAN

BRENDA BURNS

JUL 22 2011

AZ CORP COMMISSION  
DOCKET CONTROL

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY  
FOR A WAIVER UNDER A.A.C. R14-2-806  
OR, IN THE ALTERNATIVE, NOTICE OF  
INTENT TO REORGANIZE UNDER A.A.C.  
R14-2-803.

DOCKET NO. W-01303A-11-0101

**STAFF'S NOTICE OF FILING  
DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission hereby files the Direct Testimonies of Gerald  
Becker and Dorothy Hains in the above-referenced matter.

RESPECTFULLY SUBMITTED this 22<sup>nd</sup> day of July, 2011.

Charles H. Hains  
Attorney, Legal Division  
Arizona Corporation Commission  
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**Original and thirteen (13) copies of  
the foregoing filed this 22<sup>nd</sup> day of  
July, 2011, with:**

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**Copy of the foregoing mailed this  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

GARY PIERCE

Chairman

BOB STUMP

Commissioner

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PAUL NEWMAN

Commissioner

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Commissioner

IN THE MATTER OF THE APPLICATION OF	)	DOCKET NO. W-01303A-11-0101
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<u>R14-2-803</u>	)	

DIRECT

TESTIMONY

OF

GERALD W. BECKER

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 22, 2011

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**EXECUTIVE SUMMARY**  
**ARIZONA-AMERICAN WATER COMPANY, INC.**  
**DOCKET NO. W-01303A-11-0101**

Arizona American Water Company, Inc. ("AAW" or "Company") is an Arizona public service corporation and a Class "A" water and wastewater utility. AAW provides water and wastewater utility services in 17 communities located in Maricopa, Mohave, and Santa Cruz Counties in the State of Arizona. At the present time, AAW provides water services to approximately 106,600 customers and wastewater services to approximately 51,700 customers, of which the vast majority are residential customers.

AAW filed an application with the Arizona Corporation Commission ("Commission") on March 2, 2011, for a waiver of the requirements of the public utilities holding companies and affiliated interests rules (Arizona Administrative Code ("A.A.C.") R14-2-801, *et seq.*) that may be allowed under A.A.C. R14-2-806. In the alternative, if the Commission denies the waiver, the Company requests that the Commission consider this same application a notice of intent to reorganize under A.A.C. R14-2-803. On May 20, 2011, AAW docketed notice to withdraw its original request for a waiver under A.A.C. R14-2-806.

The reorganization involves the purchase of AAW from its current parent, American Water Works Company, Inc. ("American Water"), a Delaware corporation, by EPCOR Water (USA), Inc. ("EPCOR USA"), a Delaware corporation, along with the restructuring and assumption of certain debts. American Water will sell all of the issued and outstanding shares of AAW common stock to EPCOR USA, and EPCOR USA (or a third party) will offer debt replacements for the debt presently owed by the Company to its affiliate American Water Capital Corp. Also, EPCOR USA would indirectly assume the debts presently owed by AAW to unaffiliated parties. The application further specifies that the application should also be treated as a request for authorization to incur debt as might be required under Arizona statutes.

Staff recommends approval of the reorganization subject to certain conditions as follows:

1. Since EPCOR USA is relatively new to Arizona and has a number of affiliates, Staff recommends that the Commission put the Company on notice that it, and its affiliates, must comply fully with Staff in any future inquiries or requests for information and/or documents regarding any transactions that Staff determines might have some effect, direct or indirect, on the Company's operational or financial health.
2. That the Commission order AAW to refrain from seeking an acquisition adjustment due to this transaction in any future rate case.
3. That the Commission order AAW to maintain its quality of service, including, but not limited to, that the number of service complaints should not increase, that the response time to service complaints should not increase, and that service interruptions should not increase as a result of the reorganization.

4. That within 90 days of finalizing the terms of any replacement long-term debt for current short-term debt, AAW be ordered to file the details of the replacement long-term debt and that Staff be ordered to file a Staff Report and Recommendation for Commission consideration regarding the replacement long-term debt.
5. That the Commission order AAW to file an application to request authorization to incur long-term debt in the event that AAW incurs any additional debt or any debt with its affiliates including but not limited to EPCOR, the parent company of EPCOR USA, the terms of which are not substantially identical to those reflected in existing debt between AAW and American Water Capital Corp.
6. That the Commission authorize the assumption of debt with unaffiliated parties to reflect amounts and terms that are identical to those that presently exist between AAW and those unaffiliated parties.
7. That the Commission require the Company to maintain its equity position to be at least its present level of 38.0 percent of its total capitalization.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Gerald Becker. I am a Public Utilities Analyst V employed by the Arizona  
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business  
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.  
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. I am responsible for the examination and verification of financial and statistical  
9 information included in utility rate applications. In addition, I develop revenue  
10 requirements, and prepare written reports, testimonies, and schedules that include Staff  
11 recommendations to the Commission. I am also responsible for testifying at formal  
12 hearings on these matters.  
13

14 **Q. Please describe your educational background and professional experience.**

15 A. I received a Masters of Business Administration with an emphasis in Accounting from  
16 Pace University. I am a Certified Public Accountant and a Certified Internal Auditor.  
17

18 I have participated in multiple rate, financing and other regulatory proceedings. I attended  
19 the National Association of Regulatory Utility Commissioners Utilities Rate School.  
20

21 I began employment with the Commission as a utilities regulatory analyst in April 2006.  
22 Prior to joining the Commission, I worked as an Auditor at the Department of Economic  
23 Security and Department of Revenue in the Taxpayer Assistance Section. Prior to those  
24 jobs, I worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget  
25 Manager at United Illuminating, an investor-owned electric company in New Haven, CT.  
26

1 **Q. What is the scope of your testimony in this case?**

2 A. The purpose of my testimony in this proceeding is to present Staff's position and  
3 recommendations regarding the application of Arizona-American Water Company, Inc.  
4 ("AAW" or "Company"). With its initial filing, AAW requested a waiver of the  
5 requirements of the public utilities holding companies and affiliated interests rules  
6 (Arizona Administrative Code ("A.A.C.") R14-2-801, *et seq.*) ("Rules") pursuant to the  
7 provisions of A.A.C. R14-2-806 and a request for authorization to incur long-term debt.  
8 The Company later withdrew its request for a waiver and this resulted in the Company's  
9 application being a notice of intent to reorganize and a request for authorization to incur  
10 long-term debt.  
11

12 **Q. What is the basis of your recommendations?**

13 A. I performed a financial analysis of the application and the Company's responses to various  
14 inquiries and data requests. Staff's recommendations are made to ensure that the  
15 Company's rate payers are unharmed by the reorganization and that the transaction is in  
16 the public interest.  
17

18 **GENERAL INFORMATION**

19 **Q. Please briefly describe AAW.**

20 A. AAW is an Arizona public service corporation and a Class "A" water and wastewater  
21 utility. AAW provides water and wastewater utility services in 17 communities located in  
22 Maricopa, Mohave, and Santa Cruz Counties in the State of Arizona. At the present time,  
23 AAW provides water services to approximately 106,600 customers and wastewater  
24 services to approximately 51,700 customers, of which the vast majority are residential  
25 customers.  
26



1 **Q. Please describe the reorganization that is the subject of this filing.**

2 A. The reorganization involves the purchase of AAW from its current parent, American  
3 Water Works Company, Inc. ("American Water"), a Delaware corporation, by EPCOR  
4 Water (USA), Inc. ("EPCOR USA"), a Delaware corporation, along with the restructuring  
5 of debt with affiliates, and assumption of certain debts with third parties. American Water  
6 will sell all of the issued and outstanding shares of AAW common stock to EPCOR USA  
7 and EPCOR USA (or a third party) will offer debt replacements for the debt presently  
8 owed by the Company to its affiliate American Water Capital Corp. ("Capital Corp.").  
9 The application further specifies that it should also be treated as a request for authorization  
10 to incur debt as might be required under Arizona statutes.

11  
12 According to the public announcement of the purchase, the purchase price for AAW is  
13 approximately U.S. \$470,000,000. Staff found nothing in the confidential stock purchase  
14 agreement between American Water and EPCOR USA to contradict this information.

15  
16 Staff has determined that the purchase price is in excess of the net book value of the  
17 Company's assets and liabilities. AAW's application does not indicate whether EPCOR  
18 USA will seek an acquisition adjustment in any future rate case. However, representatives  
19 of EPCOR have indicated that it will not seek an acquisition adjustment.

20  
21 **Q. Are there any other entities that would or could be directly, or indirectly, involved**  
22 **with AAW after the merger?**

23 A. Yes, there are. EPCOR USA is an indirect wholly-owned subsidiary of EPCOR Utilities,  
24 Inc. ("EPCOR"). EPCOR is a municipally-owned Canadian corporation and holding  
25 company that builds, owns, and operates water and wastewater treatment facilities and  
26 infrastructure and electrical transmission and distribution networks, in Canada. EPCOR is

1           governed by an independent Board of Directors, and its sole shareholder is the City of  
2           Edmonton, Alberta, Canada.

3  
4           EPCOR is the parent company of a number of subsidiary companies. Its primary  
5           operating utility subsidiaries are EPCOR Water Services, Inc., EPCOR Distribution &  
6           Transmission, Inc., EPCOR Energy Alberta, Inc., and EPCOR Power Development  
7           Corporation. The Company's application includes further descriptions of these EPCOR  
8           subsidiaries.

9  
10       **NOTICE OF INTENT TO REORGANIZE**

11       **Q.     Did AAW file a notice of intent to reorganize?**

12       A.     Yes, AAW's original application for a waiver of the Rules also contained a notice of  
13           intent to reorganize, in case the Commission determined that a waiver was not appropriate.  
14           However, on May 20, 2011, AAW docketed notice to withdraw its original request for a  
15           waiver under A.A.C. R14-2-806.

16  
17       **Q.     Please explain the importance of the Affiliated Interest Rules.**

18       A.     The Rules cover the Commission's review of transactions between public utilities and  
19           affiliates. In general, A.A.C R14-2-804 states that, in order to transact business with an  
20           affiliate, the utility must agree to provide the Commission with access to the books and  
21           records of the affiliate to investigate transactions between the two. The utility is also  
22           obligated to maintain necessary accounting records regarding transactions with each  
23           affiliate. The Rules were created so that the Commission could be made aware of  
24           transactions and other occurrences at the holding company level that may affect the  
25           regulated utility's operations or financial well-being – even if indirectly. In the past, when  
26           dealing with certain other utilities with corporate parents, Staff has sometimes experienced

1 difficulties obtaining information at the parent level that Staff believed was necessary for a  
2 complete analysis. Staff notes this concern now in hopes of avoiding any such delays or  
3 lack of cooperation in this and any future proceedings the Commission may have with the  
4 Company.

5  
6 **Q. What is Staff's recommendation?**

7 A. Since EPCOR USA is relatively new to Arizona and has a number of affiliates, Staff  
8 recommends that the Commission put the Company on notice that it, and its affiliates,  
9 must comply fully with Staff in any future inquiries or requests for information and/or  
10 documents regarding any transactions that Staff determines might have some effect, direct  
11 or indirect, on the Company's operational or financial health.

12  
13 **Q. Has Staff experienced any such problems in this case?**

14 A. No.  
15

16 **FINANCIAL ASPECTS**

17 **Q. What does the Commission consider when evaluating a Notice?**

18 A. Under A.A.C. R14-2-803(C), "[T]he Commission may reject the proposal, if it determines  
19 that it would impair the financial status of the public utility, otherwise prevent it from  
20 attracting capital at fair and reasonable terms, or impair the ability of the public utility to  
21 provide safe, reasonable, and adequate service."

22  
23 **Q. Did Staff perform a financial comparison of American Water versus EPCOR USA?**

24 A. Staff found that EPCOR USA, established in 2009, had very little useful financial  
25 information available. Alternatively, Staff reviewed financial information on EPCOR and  
26 compared that information to American Water. That comparison indicates that EPCOR is

1 smaller than American Water based on a comparison of each entity's equity values.  
2 American Water's equity of \$4.13 billion compares with EPCOR's equity of \$2.47 billion.  
3 Additionally, Staff found that EPCOR has the same bond rating as American Water.  
4

5 **Q. Does Staff believe the subject merger could impair the Company's financial status?**

6 A. No, Staff did not find any evidence that the Company's financial status would be harmed  
7 or impaired.  
8

9 **Q. Does Staff believe that this merger might improve AAW's financial status?**

10 A. No, the Company has already indicated that there will be no change to AAW after the  
11 merger. Realistically, AAW's financial status can only be measured in a rate case where it  
12 indicates/estimates its cost of debt, cost of equity, and capital structure that lead to the cost  
13 of capital to be considered at that time. There is no indication in the subject application  
14 that any of these items may be improved or changed from the previously-approved cost of  
15 capital that supports the Company's current rates.  
16

17 **OPERATIONAL ASPECTS**

18 **Q. Does Staff believe that this merger might improve or impair AAW's operational**  
19 **status?**

20 A. The Company's application indicates that AAW will continue to operate as a public  
21 service corporation subject to the Commission's authority and jurisdiction and that AAW  
22 will continue to provide safe, reliable and adequate service to customers in its service  
23 territory. The only anticipated change is that EPCOR USA plans to change the name of  
24 the utility since AAW will no longer be part of the American Water system. EPCOR USA  
25 will notify the Commission following the determination of a new name for AAW.  
26

1 **Q. Has Staff reviewed the customer service policies and how they might change?**

2 A. In response to RUCO data request 1.9, EPCOR USA states that customer service will  
3 remain the same. This may include entering into a short-term transitional service  
4 agreement with American Water. EPCOR USA also stated that its goal is to develop a  
5 United States-based solution that meets or exceeds current service levels.

6  
7 **Q. Does Staff see any problems in customer service due to the distance between Arizona  
8 and Edmonton?**

9 A. No. Staff believes that distance should not be a problem. In the short term, all calls would  
10 continue to be taken in the same way as they are now.

11  
12 **Q. What does Staff recommend?**

13 A. Staff recommends that the Company shall maintain its quality of service, including, but  
14 not limited to, that the number of service complaints should not increase, that the response  
15 time to service complaints should not increase, and that service interruptions should not  
16 increase as a result of the reorganization.

17  
18 **AUTHORIZATION TO INCUR LONG-TERM DEBT**

19 **Q. Does the application include a request for authorization to incur long-term debt?**

20 A. Yes. The application states that it requests authorization to incur long-term debt, but it  
21 lacks the specific information customarily included in a financing application. The  
22 application indicates that EPCOR, the parent company of EPCOR USA, will replace the  
23 debt presently extended by Capital Corp., the financing subsidiary of American Water and  
24 an affiliate of the Company. The application further states: "To the extent the  
25 replacement of the existing [Capital Corp.] debt with new debt extended by EPCOR (or a

1 third party) requires Commission approval under A.R.S. § 40-301 and § 40-302, Arizona-  
2 American requests such approval in this proceeding.”<sup>1</sup>

3  
4 **Q. Has Staff reviewed the request for authorization to incur long-term debt?**

5 A. Yes. Staff is concerned that the authorization requested lacks specificity regarding the  
6 amount, terms and use of the proceeds from the loan. A.R.S. § 40-302(A) requires:

7  
8 *Before a public service corporation issues stocks and stock certificates,*  
9 *bonds, notes and other evidences of indebtedness, it shall first secure from*  
10 *the commission an order authorizing such issue and stating the amount*  
11 *thereof, the purposes to which the issue or proceeds thereof are to be*  
12 *applied, and that, in the opinion of the commission, the issue is reasonably*  
13 *necessary or appropriate for the purposes specified in the order, pursuant*  
14 *to section 40-301, and that, except as otherwise permitted in the order,*  
15 *such purposes are not, wholly or in part, reasonably chargeable to*  
16 *operative expenses or to income.*

17  
18 **Q. Does Staff have any concerns regarding the request for authorization to incur long-**  
19 **term debt?**

20 A. Yes. In response to a RUCO data request, the Company indicates that as of the date of the  
21 response, the Company was indebted for approximately \$253.1 million, of which  
22 approximately \$233.0 million was owed to its affiliate, Capital Corp., and \$20.1 million  
23 was owed to third parties. The Company’s response also discloses specific interest rates  
24 and maturity dates associated with its indebtedness.

25  
26 Staff is not concerned with the assumption of debt with unaffiliated entities at identical  
27 terms. However, Staff would be concerned if any long-term debt extended by affiliates of  
28 EPCOR USA, or a third party, for the replacement of debt that presently exists between  
29 AAW and Capital Corp. were not at substantially identical terms.

---

<sup>1</sup>Application filed March 2, 2011, at 8:20-23.

1 On July 20, 2011, Staff, EPCOR, AAW, and counsel for the parties had a telephonic  
2 meeting to attempt to define the specific terms of any new debt proposed to be incurred by  
3 AAW with EPCOR. The proposal may include the terms of possible long-term debt to  
4 replace approximately \$57.6 million of short-term debt<sup>2</sup> presently held by Capital Corp.  
5 As of the date of this testimony, EPCOR has not yet provided the specific terms and  
6 amounts of replacement debt instruments. Therefore, Staff requests that at such time as  
7 the details of such replacement debt are known that the Company provide such  
8 information to Staff and that Staff have an opportunity to review and file  
9 recommendations for Commission consideration.  
10

11 **Q. What does Staff recommend?**

12 A. Staff recommends that any debt incurred by EPCOR USA to replace the debt that  
13 presently exists between AAW and Capital Corp should reflect substantially the same  
14 terms that presently exist. If EPCOR USA should need either additional debt or debt  
15 reflecting terms or amounts that differ from the terms and amounts of existing debt, then it  
16 should file a separate application to request approval to incur long-term debt.  
17

18 **ACQUISITION ADJUSTMENT**

19 **Q. Does the application include any indication of plans to request an acquisition**  
20 **adjustment or any associated ratemaking treatment?**

21 A. No.  
22

---

<sup>2</sup> On November 18, 2010, AAW filed an application for approval to incur \$50 million of long-term debt to replace its short-term debt with long-term debt (Docket No. WS-01303A-10-0470). On January 26, 2011, AAW requested, via e-mail to Staff, that processing of the case be suspended due to the Company's announcement regarding its acquisition by EPCOR.

1 **Q. Has Staff determined whether there is an acquisition premium?**

2 A. Yes. In response to Staff data request 4.1.1, the Company estimates that the proposed  
3 transaction will result in payment of an acquisition premium of \$20.6 million for the two  
4 systems, AAW and New Mexico American Water Company. The acquisition premium is  
5 based on the sales price of \$470 million, less the book value of the equity of \$172.3  
6 million as of December 31, 2010, less the debt of \$277.1 million also as of December 31,  
7 2010, for an estimated acquisition premium of \$20.6 million. The estimated acquisition  
8 premium of \$20.6 million relates to the purchase of both AAW and New Mexico  
9 American Water Company.

10  
11 In an additional response to the Staff data request, the Company indicated the  
12 apportionment of the purchase price, the book values, and the acquisition premiums by  
13 state as of December 31, 2010, and Staff has calculated the acquisition premiums as a  
14 percentage of total debt and equity, as indicated below:

15

16 (000's)	Arizona	New Mexico	Total
17 Purchase Price	\$430,000	\$40,000	\$470,000
18 Book Values			
19 Equity	\$156,292	\$16,046	\$172,338
20 Debt	\$255,025	\$21,993	\$277,018
21 Total Debt and Equity	\$411,317	\$38,039	\$449,356
22 Acquisition Premium	\$18,683	\$1,961	\$20,644
23 Acquisition Premium, as			
24 Percentage of Total Debt			
25 and Equity	4.54 %	5.16%	4.59%

26

27 **Q. Does Staff have any concerns regarding the estimated acquisition premium?**

28 A. Yes. Staff has reviewed the application and is unable to locate any discussion of an  
29 acquisition adjustment or of the associated ratemaking treatment. However, in response to



1 a Staff data request, AAW indicates that it will not seek recovery of the acquisition  
2 premium in Arizona or New Mexico.

3  
4 **Q. Does Staff have any other comments regarding the acquisition premium?**

5 A. Yes. AAW provided its audited financial statements as of December 31, 2010, to Staff  
6 under a Confidentiality Agreement. Staff notes that the Company's response to a Staff  
7 request regarding its debt and equity amounts, as discussed above, was adequately  
8 supported by certain debt and equity amounts reflected in its audited financial statements.  
9 However, Staff also notes that the assets listed in the audited financial statements as of  
10 December 31, 2010, include a net acquisition adjustment of approximately \$25.3 million  
11 which relates to the acquisition by AAW from Citizens. The existing net acquisition  
12 adjustment of \$25.3 million is supported by and reflected in the corresponding debt and/or  
13 equity amounts reflected in the Company's capital structure as of December 31, 2010,  
14 which, in turn, is one of the components considered in the calculation of a second  
15 acquisition premium which may arise from the decision in this proceeding. For these  
16 reasons, Staff recalculates the acquisition premium for the Arizona component of the  
17 proposed transaction and increases it by \$25.3 million from \$18.683 million, as shown  
18 above, to \$43.983 million, as shown below.

19  
20 Arizona only: (000's)

21 Acquisition Premium, per Company (above)	\$18,683
22 Staff Adjustment	<u>\$25,300</u>
23 Acquisition Premium, as Recalculated by Staff	\$43,983

24  
25 **Q. Does Staff have any other comments?**

26 A. Yes. In reviewing the above information, Staff calculates that the equity for AAW is 38.0  
27 percent of the total debt and equity as of December 31, 2010.

1 **Q. What does Staff recommend?**

2 A. Staff recommends that any approval granted in this proceeding shall require that the  
3 Company refrain from seeking an acquisition adjustment due to this transaction in any  
4 future rate case. Staff further recommends that the Company continue to make progress  
5 towards meeting a goal of 40 percent equity in its capital structure, that the proposed  
6 transaction not impair the meeting of that goal, and that AAW maintain an equity position  
7 of at least 38.0 percent of its capital structure.

8  
9 **CONCLUSION**

10 **Q. What is Staff's conclusion?**

11 A. Staff concludes that, after the subject reorganization, no short-term changes, benefits, or  
12 detriments will accrue to AAW. Staff also believes that no measurable long-term changes,  
13 benefits, or detriments will accrue to AAW.

14  
15 **RECOMMENDATIONS**

16 **Q. What are Staff's recommendations?**

17 A. Staff recommends approval of the requested reorganization, with the following conditions:

18  
19 Since EPCOR USA is relatively new to Arizona and has a number of affiliates, Staff  
20 recommends that the Commission put the Company on notice that it, and its affiliates,  
21 must comply fully with Staff in any future inquiries or requests for information and/or  
22 documents regarding any transactions that Staff determines might have some effect, direct  
23 or indirect, on AAW's operational or financial health.

24  
25 That the Commission order AAW to refrain from seeking an acquisition adjustment due to  
26 this transaction in any future rate case.

1 That the Commission order AAW to maintain its quality of service, including, but not  
2 limited to, that the number of service complaints should not increase, that the response  
3 time to service complaints should not increase, and that service interruptions should not  
4 increase as a result of the reorganization.

5  
6 That within 90 days of finalizing the terms of any replacement long-term debt for current  
7 short-term debt, AAW be ordered to file the details of the replacement long-term debt and  
8 that Staff be ordered to file a Staff Report and Recommendation for Commission  
9 consideration regarding the replacement long-term debt.

10  
11 That the Commission order AAW to file an application to request authorization to incur  
12 long-term debt in the event that AAW incurs any debt with its affiliates including but not  
13 limited to EPCOR, the terms and principal amounts of which are not substantially  
14 identical to those reflected in existing debt between AAW and American Water Capital  
15 Corp.

16  
17 That the Commission authorize the assumption of debt with unaffiliated parties to reflect  
18 amounts and terms that are identical to those that presently exist between AAW and those  
19 unaffiliated parties.

20  
21 That the Commission require the Company to maintain its equity position to be at least its  
22 present level of 38.0 percent of its total capitalization.

23  
24 **Q. Does this conclude your Direct Testimony?**

25 **A.** Yes, it does.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

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BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
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IN THE ALTERNATIVE, NOTICE OF INTENT )  
TO REORGANIZE UNDER A.A.C. R14-2-803. )  
\_\_\_\_\_ )

DOCKET NO. W-01303A-11-0101

DIRECT

TESTIMONY

OF

DOROTHY HAINS, P.E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 22, 2011

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**INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. By whom and in what position are you employed?**

A. I am employed by the Arizona Corporation Commission ("Commission" or "ACC") as a Utilities Engineer - Water/Wastewater in the Utilities Division.

**Q. How long have you been employed by the Commission?**

A. I have been employed by the Commission since January 1998.

**Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?**

A. My main responsibilities are to inspect, investigate and evaluate water and wastewater systems. This includes obtaining data, preparing reconstruction cost new and/or original cost studies, cost of service studies and investigative reports, interpreting rules and regulations, and to suggest corrective action and provide technical recommendations on water and wastewater system deficiencies. I also provide written and oral testimony in rate cases and other cases before the Commission.

**Q. How many companies have you analyzed for the Utilities Division?**

A. I have analyzed more than 90 companies fulfilling these various responsibilities for Utilities Division Staff ("Staff").

**Q. Have you previously testified before this Commission?**

A. Yes, I have testified on numerous occasions before this Commission.

1 **Q. What is your educational background?**

2 A. I graduated from the University of Alabama in Birmingham in 1987 with a Bachelor of  
3 Science degree in Civil Engineering.

4  
5 **Q. Briefly describe your pertinent work experience.**

6 A. Before my employment with the Commission, I was an Environmental Engineer for the  
7 Arizona Department of Environmental Quality ("ADEQ") for ten years. Prior to that time,  
8 I was an Engineering Technician with C. F. Hains, Hydrology in Northport, Alabama for  
9 approximately five years.

10  
11 **Q. Please state your professional membership, registrations, and licenses.**

12 A. I have been a registered Civil Engineer in Arizona since 1990. I am a member of the  
13 American Society of Civil Engineering ("ASCE"), American Water Works Association  
14 ("AWWA") and Arizona Water & Pollution Control Association ("AWPCA").

15  
16 **PURPOSE OF TESTIMONY**

17 **Q. What was your assignment in this rate proceeding?**

18 A. My assignment was to provide Staff's engineering evaluation of the subject Arizona-  
19 American Water Company ("Company") sale and transfer proceeding. The Company's  
20 eight water districts including Anthem Water District ("Anthem"), Agua Fria Water  
21 District ("Agua Fria"), Havasu Water District ("Havas"), Mohave Water District  
22 ("Mohave Water"), Paradise Valley Water District ("Paradise Valley"), Sun City West  
23 Water District ("Sun City West"), Sun City Water District ("Sun City") and Tubac Water  
24 District ("Tubac") and four wastewater districts including Anthem and Agua Fria  
25 Wastewater District ("Anthem/Agua Fria Wastewater"), Sun City Wastewater District  
26 ("Sun City Wastewater"), Sun City West Wastewater District ("Sun City West

1 Wastewater”) and Mohave Wastewater District (“Mohave Wastewater”) are listed in the  
2 application. Commission approval of the application would result in the transfer of  
3 ownership and control of the Arizona-American Water Company operations listed above  
4 to EPCOR Water (USA) Inc.

5  
6 **Q. What is the purpose of your testimony in this proceeding?**

7 A. To present the findings of Staff’s engineering evaluation of the operations of the  
8 Company’s Anthem Water, Agua Fria Water, Havasu Water, Mohave Water, Paradise  
9 Valley Water, Sun City Water, Sun City West Water, Tubac Water, Anthem/Agua Fria  
10 Wastewater, Sun City Wastewater, Sun City West Wastewater and Mohave Wastewater.  
11 The findings are contained in below.

12  
13 **ENGINEERING EVALUATIONS**

14 **Q. Would you briefly describe what was involved in preparing your engineering**  
15 **evaluation for this proceeding?**

16 A. After reviewing the application and the Company’s Responses to Staff Data Requests, I  
17 contacted the Maricopa County Department of Environmental Services (“MCDES”) and  
18 the Arizona Department of Environmental Quality (“ADEQ”) to verify if the water  
19 systems were in compliance with the Safe Drinking Water Act water quality requirements.  
20 Further, I contacted ADEQ to determine if the wastewater systems were in compliance  
21 with the ADEQ wastewater discharge permit requirements. I also contacted the Arizona  
22 Department of Water Resources (“ADWR”) to verify if the water systems were in  
23 compliance with the ADWR’s requirements governing water providers. Based on all the  
24 above, I prepared the tables below to summarize the results of my evaluation.

25



**WATER**

**Q. Do the Company's water systems comply with monitoring and reporting requirements and the water quality standards of the Safe Drinking Water Act?**

**A. Yes. The table below summarizes the Water Quality Compliance Status reports issued by ADEQ and MCDES.**

Water District	System Name	PWS #	Compliance Report Issued Date	Is the System in compliance with ADEQ or MCDES?
Anthem	Anthem	07-504	4/15/11	yes
Sun City	Sun City	07-099	4/19/11	yes
Sun City	Tierra Del Rio	07-532	4/15/11	yes
Sun City West	Sun City West	07-150	4/15/11	yes
Paradise Valley	Paradise Valley	07-056	2/18/11	yes
Auga Fria	Auga Fria	07-695	4/25/11	yes
Auga Fria	Northeast Auga Fria	07-531	11/16/10	yes
Tubac	Tubac	12-001	4/7/11	yes
Havasu	Lake Havasu	08-015	10/4/10	yes
Mohave	Mohave	08-032	10/4/10	yes
Mohave	Camp Mohave	08-037	11/22/10	yes
Mohave	Lake Mohave Highlands	08-062	11/22/10	yes
Mohave	Desert Foothills	08-137	11/23/10	yes
Mohave	Rio Vista	08-333	11/22/10	yes
Mohave	Arizona Gateway	08-163	11/23/10	yes

**Q. Do the Company's water systems comply with ADWR requirements?**

**A. Yes. The table below summarizes the ADWR reports**

Water District	Is the System in AMA area?	Name of the AMA	ADWR #	Compliance Report Issued Date	Is the System in compliance with ADWR Monitoring & Reporting requirements?
Anthem	Yes	Phoenix	91-000269.0000	3/22/11	Yes
Sun City	Yes	Phoenix	56-002038.0000	3/22/11	Yes
Sun City West	Yes	Phoenix	56-002039.0000	3/22/11	Yes
Paradise Valley	Yes	Phoenix	56-002027.0000	3/22/11	Yes
Auga Fria	Yes	Phoenix	55-002012.0000	12/9/10	Yes
Tubac	Yes	Santa Cruz	56-000042.0000	3/22/11	Yes
Havasu	No	None	91-000313.0000	12/9/10	Yes
Mohave	No	None	N/A	12/9/10	Yes

**Q. Please summarize the physical conditions of the water systems.**

**A.** All water systems have adequate well production and storage capacities to serve existing customers and projected growth for a five-year planning horizon. All water systems are generally operating in an efficient manner and delivering adequate and reliable service to customers.

## **WASTEWATER**

**Q. Do the Company's wastewater systems comply with the ADEQ permit requirements?**

**A.** Yes. The table below summarizes the Compliance reports issued by ADEQ.

Wastewater District	Name of the Treatment Plant ("TP") treating District sewage	Inventory #	Permit #	Compliance Report Issued Date	Is system in compliance with ADEQ permit requirements?
Anthem	Anthem Water Campus TP	103259	23639 & 36218	4/12/11	Yes
Sun City	Tolleson Wastewater TP**	100339	32823 & 14886	4/12/11	No
Sun City West	Northwest Valley Regional Water Reclamation Plant	102667	27576 & 36946	4/12/11	Yes
Auga Fria	Russell Ranch Wastewater TP	105299	26497 & 36953	4/12/11	Yes
Agua Fria	Verrado Wastewater TP	105202	27395 & 36947	4/12/11	Yes
Agua Fria (Corte Bella)	Northwest Valley Regional Water Reclamation Plant	102667	27576 & 36946	4/12/11	Yes
Mohave	Wishing Well Wastewater TP	102181	30157 & 36948	4/12/11	Yes
Mohave (Arizona Gateway)	Arizona Gateway Wastewater TP	105010	31789 & 36949	4/12/11	Yes

\*\*Note: The Company does not own or operate Tolleson TP; this plant is owned and operated by the City of Tolleson.

1 **Q. Please summarize the physical conditions of the wastewater systems.**

2 A. All systems have adequate treatment capacity to serve existing customers and projected  
3 growth for a five-year planning horizon. All wastewater systems are generally operating  
4 in an efficient manner and delivering adequate and reliable service to customers.

5  
6 **Q. Is the Company in compliance with Commission requirements?**

7 A. Yes. A check of the Commission's Utilities Division Compliance Database indicates  
8 there are no delinquent compliance items for the Company.

9  
10 **CONCLUSIONS**

11 **Q. What are Staff's conclusions as a result of its engineering evaluation of the**  
12 **Company?**

13 A. Staff concludes that the Company is in compliance with the regulatory agencies that  
14 oversee its operations in Arizona. The Company's water and wastewater systems have  
15 adequate capacity. The Company's water and wastewater systems are generally operating  
16 in an efficient manner and delivering safe, adequate and reliable service to customers.

17  
18 **Q. Does this conclude your Direct Testimony?**

19 A. Yes, it does.